

Education Savings Accounts and Improving Oklahoma Student Achievement

Jonathan Butcher

Abstract

Every Oklahoma child deserves the chance at a great future. Education savings accounts have helped thousands of students in Arizona and Florida find a high quality education. This white paper provides a road map for Oklahoma policymakers to design a savings account program for their state. With an education savings account, the state deposits public money in a bank account that parents can use to buy educational products and services for their children. Families can choose the most effective schools, online classes, personal tutors, and textbooks, to name a few, to meet a child's needs. Education savings accounts have been law in Arizona since 2011. This white paper explains the legislation and subsequent revisions that have helped make the program more transparent to lawmakers and taxpayers.

This paper, in its entirety, can be found at opip.net/education.html

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All parents want an effective school for their child. But no parent should have to take the drastic steps that Yolanda Miranda took to give her children a chance at a good education: Yolanda went to jail and was charged with grand larceny for sending her children to better schools in their grandmother's district instead of their assigned schools.

"If I had to do it again 10 times over, I would," Yolanda says.¹

Cases like Yolanda's have appeared all over the country, which is not surprising because in many states, parents have few options but to enroll their children in the assigned public school, regardless of its quality.² We will see more parents like Yolanda as long as parents are

denied the right to find the best school for their child. Is it fair for a parent to have to enroll their child in an ineffective or unsafe public school because of their zip code?

The most innovative solution to provide all of America's children with better opportunities is education savings accounts.³ Enacted in Arizona in 2011 and Florida in 2014, the savings accounts are parent-controlled bank accounts in which the state deposits state funds. Parents can pay for a variety of educational expenses, such as tutoring, private school tuition, and online classes.

Oklahoma lawmakers should use education savings accounts in order to offer families more ways to find a high-quality education.

Education Savings Accounts were pioneered in Arizona. Jonathan Butcher gives an overview of the Arizona experience and explains how Oklahoma would benefit from ESAs. Butcher is Education Director at the Goldwater Institute and a member of the Arizona Department of Education's Steering Committee for Empowerment Scholarship Accounts.

Currently, if Oklahoma was considered its own country, an Education Next study finds that 30 developed nations would outperform the state's high school students in math.⁴ Seventy percent of state 4th graders read at "basic" levels or below, which means they only have "partial mastery" or less of the skills necessary for their grade level.⁵ Oklahoma students need better opportunities.

State parents want more options. According to a SoonerPoll survey, 58 percent of likely voters "would actually prefer to choose an alternative form of school for their children, such as private or parochial schools, charter schools, or homeschooling, to receive a better education than traditional public schools."⁶ Fifty-six percent of respondents would favor education savings accounts, and 68 percent favored allowing the accounts to be available to all families.

With developments in technology, families have more options than ever in K–12 education.

With developments in technology, families have more options than ever in K–12 education. This report outlines how education savings accounts give parents even more flexibility. Moreover, it offers a road map for Oklahomans as they design a similar policy.

What is school choice?

"School choice" is a general term that refers to any policy or program that allows parents to choose a school or learning experience for their child other than the traditional public school to which the student was assigned. These choices take a variety of forms (Table 1).

In addition to education savings accounts, school vouchers and tax credit scholarships are the only other private school choice options in Table 1. Each scholarship law passed its state under different circumstances and the political trappings of respective areas, which resulted in scholarships being worth different amounts from state to state. Some state lawmakers made vouchers and/or scholarships equal to a school's tuition amount. Other state legislators made the scholarship amounts worth a percentage of what the state spends per student in the traditional school system.⁷ For more on the value of Arizona's education savings accounts and how the amount is calculated, see the "School Choice and State Finance" section below.

Table 2 (page 4) provides information on 13 private school choice programs around the country and the scholarship awards.

¹ The Week Staff, "Should parents do jail time for 'stealing' an education?," *The Week*, March 13, 2012, <http://theweek.com/articles/477362/should-parents-jail-time-stealing-education>. Source material for this white paper can be found in Jonathan Butcher, *Education Savings Accounts: A Path to Give All Children an Effective Education and Prepare Them for Life*, Goldwater Institute Policy Report No. 253, October 30, 2012, https://goldwater-media.s3.amazonaws.com/cms_page_media/2015/2/2/PR253ESAsPathToAllChildren_o.pdf and Jonathan Butcher, "A New Day for School Choice: Education Savings Accounts Turn 3 Years Old," Goldwater Institute Policy Brief No. 264, December 16, 2013, https://goldwater-media.s3.amazonaws.com/cms_page_media/2015/1/29/ESA%20Year%203.pdf.

² See Lachlan Cartwright and Yoav Gonen, "Kindergarten Cops," *New York Post*, March 31, 2011, http://www.nypost.com/p/news/local/brooklyn/kindergarten_cops_nHuh7yViAHCgEZtjnQp4VO; B. A. Birch, "Residency Fraud in D.C. Schools Tough to Identify, Police," *Education News*, October 10, 2011, <http://www.educationnews.org/education-policy-and-politics/residency-fraud-in-d-c-schools-tough-to-identify-police/>; James Vaznis, "Residency Fraud at Top Schools Vexes City," *The Boston Globe*, April 23, 2010, http://www.boston.com/yourtown/brookline/articles/2010/04/23/boston_city_councilor_seeks_tighter_residency_rules_for_exam_schools/; and Eddy Ramírez, "Schools Crack Down on Boundary Hopping," *U.S. News and World Report*, March 2, 2009, <http://www.usnews.com/education/articles/2009/03/02/schools-crack-down-on-boundary-hopping>.

³ Under Arizona law, the accounts are called "Empowerment Scholarship Accounts." See Arizona State Legislature, *Fiftieth Legislature, First Regular Session, S.B. 1553*, <http://www.azleg.gov/legtext/50leg/1r/bills/sb1553h.pdf>.

⁴ Eric A. Hanushek, Paul E. Peterson, and Ludger Woessmann, "U.S. Students from Educated Families Lag in International Tests," *Education Next*, Fall 2014, Vol. 14, No. 4, <http://educationnext.org/us-students-educated-families-lag-international-tests/>.

⁵ National Assessment of Educational Progress, 2013 Mathematics and Reading, "Focus on individual state results," http://www.nationsreportcard.gov/reading-math_2013/#/comparison-graphs?sto=OK.

⁶ SoonerPoll, "Oklahomans favor various methods of giving parents more control over their child's education," January 30, 2015, <http://soonerpoll.com/oklahomans-favor-various-methods-of-giving-parents-more-control-over-their-childrens-education/>.

⁷ For a comprehensive table, see The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 2014 ed., p. 105-108.

Table 1

School Choice Options in the States

<p>Open enrollment allows families to choose a public school other than the child’s assigned school, even if that school is located in another school district.</p> <p>Oklahoma allows for limited open enrollment based on receiving schools’ available space. Other states, such as Arizona, allow students to choose to attend any public school in the state.</p>
<p>Charter schools are independent public schools—schools not under the auspices of most traditional school district rules and regulations. Generally, charter schools can choose their own curriculum and resolve personnel issues (such as the hiring and firing of teachers) outside of district rules or teachers union contract requirements. Most charter school teachers do not belong to a union.</p> <p>Approximately 3 million students attend the 6,700 charter schools operating in the U.S.⁸ Oklahoma is one of 42 states and Washington, D.C., that has a charter school law. Nineteen charter schools operate in Oklahoma and enroll over 6,500 students.⁹</p>
<p>Tax credit scholarships allow students to attend a private school using a scholarship from a non-profit scholarship-granting organization. These scholarship organizations receive contributions from individuals and/or businesses in order to fund the scholarships. The contributing individuals or businesses receive a credit on their taxes for their contribution. Lawmakers in 14 states have enacted tax credit scholarships.</p>
<p>School vouchers are state funds awarded to eligible families for use on private school tuition. The vouchers are provided as a coupon to schools or participating families to use for school tuition and fees. Parents in 10 states and Washington, D.C. can access school vouchers for their children to pay private school tuition.</p>
<p>Education savings accounts are restricted-use bank accounts. The state deposits public funds in an account that parents can use for educational products and services. Parents can pay for online classes, tutoring services, private school tuition, and college expenses, to name a few, with an account. Arizona and Florida lawmakers have enacted education savings accounts.</p>
<p>Course access systems, as available in a small Louisiana pilot program, allow parents and students to choose a desired course.¹⁰ Families enter their residential information in a database and find the nearest physical school location, online school, or postsecondary institution that offers the course. Course access also exists in Wisconsin and Utah.</p>

⁸Arianna Prothero, “National Charter School Enrollment Approaches 3 Million Students,” Education Week, February 11, 2015, http://blogs.edweek.org/edweek/charterschoice/2015/02/charter_school_enrollment_approaches_three_million_nationally.html.

⁹Center for Education Reform, “2011-12 National Charter School & Enrollment Statistics,” <https://www.edreform.com/wp-content/uploads/2012/03/National-Charter-School-Enrollment-Statistics-2011-12.pdf>.

¹⁰Louisiana Course Choice, available at <http://www.louisianacoursechoice.net/>.

Table 2

13 Private School Choice Programs in the U.S. and Average Scholarship Awards or Award Caps¹¹

Program	State	Type	Average	Scholarship Award/Cap
Empowerment Scholarship Account	Arizona	Education Savings Account	K-12: \$4,600-\$5,400 KG: \$2,700-\$3,100	No Cap
Arizona Individual/Corporate Tax Credit Scholarships	Arizona	Tax Credit Scholarship	\$2,000	\$4,900 (K-8) and \$6,200 (9-12).
John M. McKay Scholarships for Students with Disabilities Program	Florida	Voucher	\$6,744	Equal to traditional school funding; cannot exceed private school tuition.
Personal Learning Scholarship Account	Florida	Education Savings Account	\$10,000 (estimated)	\$18 million state-wide
Florida Tax Credit Scholarship	Florida	Tax Credit Scholarship	\$4,663	\$4,880; Awards cannot exceed private school tuition and fees.
Georgia Scholarship Tax Credit Program	Georgia	Tax Credit Scholarship	\$3,388	\$9,046
Georgia Special Needs Scholarship Program	Georgia	Voucher	\$5,386	Equal to traditional school funding; cannot exceed private school tuition.
Choice Scholarship Program	Indiana	Voucher	\$3,962	Equivalent to a percentage of public school funding based on family income.
Individual and Corporate School Tuition Organization Tax Credit	Iowa	Tax Credit Scholarship	\$1,086	May not exceed private school tuition.
Student Scholarships for Educational Excellence Program	Louisiana	Voucher	\$5,311	No cap; Vouchers awards are capped at 90 percent of state and local spending per student in the traditional system or tuition at a private school.
Educational Choice Scholarship Program	Ohio	Voucher	\$4,105	\$4,250 (K-8) and \$5,700 (9-12)
Educational Improvement Tax Credit	Pennsylvania	Tax Credit Scholarship	\$990	May not exceed private school tuition.
Milwaukee Parental Choice Program	Wisconsin	Voucher	\$6,442	\$6,442

¹¹ Alliance for School Choice Yearbook, 2013-14, pp. 14-15; The Friedman Foundation for Educational Choice, The ABCs of School Choice, 2014 Ed., pp. 105-108; Arizona Department of Revenue, "Manual for School Tuition Organizations," pp. 36-37, <http://www.azdor.gov/LinkClick.aspx?fileticket=7yB6sLip-ok%3d&tabid=240>.

Education Savings Accounts

Arizona's education savings accounts are state-funded bank accounts that families use for education expenses. Parents operate the accounts, and they have discretion over different services and materials (see the bulleted list in the next paragraph). The state's department of education and treasurer's office coordinate to deposit student funds from the school funding formula into the accounts. Conceived by the Goldwater Institute in 2005 and passed into law in Arizona in 2011, the accounts offer parents and children more choices in a child's education and allow children to access options either online, across states, or through new devices such as iPads.¹²

Like HSAs, which allow patients to buy prescription medicine, pay co-pays after a doctor's visit, and pay hospital fees, education savings accounts also give individuals discretion over how money is spent on different products and services.

Like HSAs, which allow patients to buy prescription medicine, pay co-pays after a doctor's visit, and pay hospital fees, education savings accounts also give individuals discretion over how money is spent on different products and services. With education savings accounts, the state department provides parents an account number and a check or debit card, and parents use the card or online programs such as PayPal to make purchases or to pay school tuition. In Arizona, approved expenses include the following:

- Private school tuition
- Textbooks
- Education therapy

- Online classes
- Tutoring
- Standardized testing
- Coverdell college savings plans
- College tuition
- Individual public school classes and extracurricular programs

The state deposits funds into students' accounts quarterly, after a state agency reviews the expenses to make sure families' expenses fall within this list. The state can suspend accounts if a family uses a card for expenses not included in the savings account law.

For more information on the legislative history of Arizona's accounts, see "Arizona's Experience with Education Savings Account Legislation" below.

Education Savings Accounts and State Finance

In Arizona and Florida, education savings accounts are funded using an amount equal to 90 percent of the state's contribution to a child's portion of the funding formula, combined with amounts from other parts of the funding formula.¹³ In Florida, lawmakers appropriated \$18 million to pay for the accounts in the 2014-15 school year, while in Arizona, education savings accounts are funded as part of the traditional school funding system. Florida's appropriation will allow 1,800 students to use accounts this year (assuming the average account is funded with \$10,000).

Arizona does not have a funding cap on accounts, though there is a participation cap (see "Arizona's Experience with Education Savings Accounts" below). The Arizona state general fund, local districts, and the federal government combine to pay an average of \$8,907 per child in the traditional school system.¹⁴

Approximately 40 percent of the total amount spent per student is funded with money from the state general fund, equal to \$3,500.¹⁵ Ninety percent of this figure is \$3,200. In 2013, Arizona lawmakers

¹²Dan Lips, "Education Savings Accounts: A Vehicle for School Choice," Goldwater Institute Policy Report No. 207, November 15, 2005, <http://goldwaterinstitute.org/sites/default/files/Education%20Savings%20Accounts.pdf>.

¹³See Arizona Revised Statutes, Title 15, Chapter 19, Article 1, 15-2402, <http://www.azleg.gov/FormatDocument.asp?inDoc=/ars/15/02402.htm&Title=15&DocType=ARS> and Florida Senate Bill SB 850, 2014 Session, <http://www.flsenate.gov/Session/Bill/2014/0850>.

¹⁴Arizona Joint Legislative Budget Committee, "K-12 Funding (M&O, Capital, and All Other)," <http://www.azleg.gov/jlbc/allfunding.pdf>.

¹⁵In Arizona, students are funded using a weighted funding system. For example, high school students and students with special needs, generate more from the general fund than elementary students. See Arizona Revised Statutes, Title 15, Chapter 9, Article 1, available at <http://www.azleg.gov/ArizonaRevisedStatutes.asp?Title=15>.

adjusted the accounts' funding provision by adding an additional \$1,500 to this base amount.¹⁶

For students with special needs, \$3,200 (90 percent of the base amount) is added to \$1,500 and then multiplied by a funding weight assigned to the child's special need. For example, a child with a hearing impairment has a funding weight of 4.771.¹⁷ This figure, multiplied by \$4,700 equals \$22,424, which would be the amount the state deposits in a child's education savings account.

The local portion of the funding formula, which accounts for another 40 percent of the total student funding amount in Arizona, is a savings to local districts. In addition, the federal portion of student funding (approximately 10-15 percent, though it varies from state to state) is also a savings.

...every education savings account is a cost-savings to the state...

Participating Arizona students must have attended a public school in the year prior to using a savings account. As a result, every education savings account is a cost-savings to the state. The state realizes a savings because every child enrolled in a public school is funded as a participating student at their traditional school. When they leave to use an education savings account, their new funding level is below what the state, local districts, and the federal government were paying on their behalf the year before. The savings also means that education savings account laws designed in this way should

not generate a fiscal note from legislative budget analysts. Because each account comes at a cost savings to the state, education savings accounts are not a new expense for the general fund.¹⁸

Education savings accounts would cost taxpayers additional money to implement if existing private school students could use an account. In that case, because the student using an account was not in the funding formula the year before, new money must be added on their behalf for their account.

Cost savings estimates for an education savings account program in Oklahoma are provided in Table 3. This table estimates that the accounts would be funded at the same level as Arizona's base funding amount for accounts (approximately \$4,700). Per these figures, every 5,000 students using an education savings account at this funding amount in Oklahoma would save taxpayers \$19.2 million. Students with special needs may generate additional funding for their accounts, but if state lawmakers fund education savings accounts at a percentage of the amount spent on traditional students, the accounts would still be a cost-savings to the taxpayer.

As mentioned above, Arizona education savings account students are funded at 90 percent of the state base student aid amount. Even though children with special needs generate a higher funding level than traditional students, students with special needs using an education savings account are still funded at 90 percent of the funding level for students with special needs in traditional schools.

Table 3
Arizona Education Savings Account Funding

<p>Arizona Students with Special Needs' Education Savings Accounts: $(\\$3,200 + \\$1,500) \times \text{Special Needs Funding Weight} = \text{Education Savings Account deposit}$</p>
<p>Arizona Traditional Students' Education Savings Accounts: $(\\$3,200 + \\$1,500) \times \text{Basic Funding Weight} = \text{Education Savings Account deposit}$</p>

¹⁶ For more information, see Butcher, "A New Day for School Choice: Education Savings Accounts Turn 3 Years Old."

¹⁷ Arizona Department of Education, "The Equalization Formula for Funding School Districts and Charters in the State of Arizona," December 20, 2010, <https://ade.az.gov/schoolfinance/FAQs/Funding/Equalization%20Formula%20Funding.pdf>.

¹⁸ Public school systems may counter this by saying that when a child leaves their school, the funding leaves with them—ergo, public schools lose money. However, since the child is leaving, that school is no longer educating the child. In terms of fixed costs, school districts use bond elections or state general fund distributions to cover facility expenses. These funding sources are independent of how many students a school has enrolled.

Table 4
Cost savings estimates¹⁹

	Spending Per Student
Traditional Oklahoma Public Schools	\$8,544
ESA Student (without weighted average funding for special needs)	\$4,700
Savings to the State per ESA student	\$3,844

Using the figures in this table, we can also calculate the additional resources needed if existing private school students are made eligible for accounts in Oklahoma: For every 5,000 private school students using an account, \$23.5 million would be required to fund their accounts.

Who Benefits from Education Savings Accounts?

Education savings accounts benefit children, parents, and taxpayers alike. This year, the federal government named five Oklahoma schools as “Blue Ribbon” schools based on the schools’ student achievement.²⁰ For the students in these schools, the recognition confirms the hard work and success of the students and teachers in those educational communities. Yet these schools enroll 1,947 students combined, representing 0.3 percent of the students in the state.²¹ Meanwhile, nearly one out of every four schools in Oklahoma earned a D or an F on the state report card, based on student achievement.²²

To make matters worse, among highly-educated Oklahoma families—families where at least one parent has a college degree—children rank 29th in math compared to students from 34 developed nations in the Organisation for Economic Cooperation and Development (OECD).²³ The

parents of these children probably think their children are receiving a good education, when, in fact, students are still falling behind the rest of the world.

All Oklahoma students deserve the chance at a great education. The evidence from state achievement indicators demonstrates that most students in the state do not have this opportunity. If research indicated that school choice programs had a negative effect on student learning, teachers unions’ opposition and opposition from other education associations would have some justification. No parent wants their child participating in something harmful to them. Yet the evidence that school choice benefits both the students exercising their option to choose a school and their peers in traditional public schools indicates that education associations are looking out for their own interests and not students’ best interests.

Greg Forster has conducted multiple meta-analyses of school choice programs and says, “Today, the effects of these programs are known, and there is no longer an excuse for policymakers and opinion leaders to be ignorant of the facts.”²⁴ Eleven out of 12 random assignment studies of student achievement and school choice programs find positive benefits

¹⁹ Jonathan Butcher, “Dollars, Flexibility, and an Effective Education: Parent Voices on Arizona’s Education Savings Accounts,” Goldwater Institute Policy Report No. 263, October 3, 2013, http://goldwaterinstitute.org/sites/default/files/GWI_Policy%20Report_ESA_final.pdf; National Center for Education Statistics, Digest of Education Statistics, Table 236.70: Current expenditure per pupil in average daily attendance in public elementary and secondary schools, by state or jurisdiction: Selected years, 1969-70 through 2010-11, http://nces.ed.gov/programs/digest/d13/tables/dt13_236.70.asp.

²⁰ Oklahoma State Department of Education, “Superintendent Barresi congratulates five 2014 National Blue Ribbon Schools in Oklahoma,” September 30, 2014, <http://www.ok.gov/sde/newsblog/2014-09-30/superintendent-barresi-congratulates-five-2014-national-blue-ribbon-schools>.

²¹ Oklahoma Department of Education, “State Student Enrollment Totals,” December 3, 2014, <http://www.ok.gov/sde/documents/2014-02-13/state-student-public-enrollment-2013>.

²² Dallas Franklin and KFOR-TV and Chellie Mills, “Oklahoma Report Card: More schools receive an ‘F,’” News Channel 4 KFOR, September 17, 2014, <http://kfor.com/2014/09/17/oklahoma-school-report-card-more-failing-grades-than-last-year/>.

²³ Hanushek, Peterson, and Woessman, “U.S. Students from Educated Families Lag in International Tests.”

²⁴ Greg Forster, “A Win-Win Solution: The Empirical Evidence on School Choice,” 3rd ed., April 2013, p. 3, <http://www.edchoice.org/Research/Reports/A-Win-Win-Solution--The-Empirical-Evidence-on-School-Choice.aspx>.

...studies of student achievement and school choice programs find positive benefits for students...

for students (one study found no significant impact). Studies that use a random assignment design are considered the most rigorous social science research available to scientists.

Using a lottery to assign students to a school using a school voucher or tax credit scholarship or to attend a charter school (an independent, tuition-free public school) removes elements of bias or selection that obscure the direct effects of attending a school of choice. Significant evidence exists that shows voucher programs, in particular, help students succeed (Table 5).²⁵

A study of students using scholarships to attend private schools in New York City found that these students were more likely to attend college than their peers.²⁷ This study found that black students using a voucher “increased the overall college enrollment rate...by 24 percent.” A follow-up

study by the same researchers reports, “Minority students who received a school voucher to attend private elementary schools in 1997 were, as of 2013, 10 percent more likely to enroll in college and 35 percent more likely than their peers in public school to obtain a bachelor’s degree.”²⁸

In Washington, D.C., research demonstrates that students using a voucher in the nation’s only federally-funded voucher program “had significantly higher rates of high school graduation.”²⁹ Parents of children using a voucher in D.C. were also more satisfied with their child’s education.

School Choice and Traditional Public Schools

Researchers have also found that private school scholarships have positive impacts on students that remain in public schools. As Forster documents, 22 out of 23 studies found that school choice results in positive outcomes for public school students in areas where private school choice programs operate (the remaining study found no significant impact).

Among the notable studies, Jay P. Greene and Marcus A. Winters studied Florida’s voucher program for students with special needs, the

Table 5
Empirical Studies on School Choice²⁶

	Positive Effect	No Visible Effect	Negative Effect
Academic outcomes of choice participants	11	1	0
Academic outcomes of public schools	22	1	0
Fiscal impact on taxpayers	6	0	0
Racial segregation in schools	7	1	0
Civic Values and Practices	5	2	0

²⁵ Education savings accounts are not vouchers and give parents more choices for their child’s education than a school voucher. Vouchers are the school choice option that most closely resembles education savings accounts, though. So, the studies that show that vouchers improve student achievement are the most reliable evidence available to estimate the impact that education savings accounts will have on student achievement.

²⁶ Greg Forster, “A Win-Win Solution: The Empirical Evidence on School Choice,” The Friedman Foundation for Educational Choice, April 2013, p. 2.

²⁷ Matthew M. Chingos and Paul E. Peterson, “The Effects of School Vouchers on College Enrollment,” The Brown Center for Education Policy and Brookings and Harvard Kennedy School Program on Education Policy and Governance, http://www.hks.harvard.edu/pepg/PDF/Impacts_of_School_Vouchers_FINAL.pdf.

²⁸ Chingos and Peterson, “School Vouchers Help Low-Income Minority Students Earn a College Degree.”

²⁹ Patrick J. Wolf, Ph.D., et al, “Evaluation of the DC Opportunity Scholarship Program,” available at <http://www.uaedreform.org/evaluation-of-the-dc-opportunity-scholarship-program/>.

...private school scholarships have positive impacts on students that remain in public schools.

McKay Scholarship Program. The researchers write, “Public school students with relatively mild disabilities made statistically significant test score improvements in both math and reading as more nearby private schools began participation in the McKay program.”³⁰

Forster’s meta-analysis points to the research and emphasizes that no study using random assignment has found that private school choice negatively impacts student achievement.

Still, unions and other associations charge that the positive outcomes from school choice are the result of private school choice programs attracting the highest-achieving students from public schools (otherwise known as “skimming the cream” off of public schools). This claim can be found as far back as a decade or more, yet the claim persists today.³¹ In May 2014, the Thomas B. Fordham Institute’s Michael J. Petrilli finds the argument lurking in American Federation for Teachers’ president Randi Weingarten’s consternation with a federal bill that updates national charter school funding laws.³²

Petrilli cites research from the National Alliance for Public Charter Schools that finds “public charter schools across the nation enroll, on average, a greater percentage of low income students (46 percent versus 41 percent), Black and Latino students (27 percent versus 15 percent and 26 percent versus 22 percent, respectively), and students who perform lower on standardized assessments before transferring to charter schools.”

In addition, the Center for Research on Educational Outcomes (CREDO) at Stanford University finds that charter schools tend to enroll students with demographic and income-related characteristics that indicate the students would be

at risk of lower educational achievement levels:

Charter schools in the United States educate a higher percentage of students in poverty (as indicated by free or reduced price lunch eligibility) than all US public schools.... While about half of all public school students are white, this proportion is much smaller in US charter schools (slightly over one-third). Conversely, a much larger proportion of charter students are black than in all public schools. The proportion of Hispanic students is slightly larger in charter schools than all public schools as well. The proportions of charter students in the 27 states charter schools are similar to those in all US charters. In addition, the 27 included states have a higher proportion of students who are English language learners and a lower proportion of special education students than are in all US public schools.³³

But what about private school choice options such as vouchers? For unions to substantiate the claim that higher-performing students are the only ones using a voucher, scholarship, or education savings account, these students would first have to be eligible for these options (and it would help their claim if the lower-performing students were not eligible). But almost without exception, the students eligible for private school choice options are those already in low performing schools or low income communities.

For example, students eligible for education savings accounts in Arizona include children from persistently failing public schools. These students are already attending failing schools, and the high-performing and lower-performing students at the schools have the same choices. For the public school system at large, how could voucher systems take such a large number of high-achieving students that it would negatively impact school districts if the students eligible to participate must be attending low-performing schools?

³⁰ Jay P. Greene, Ph.D. and Marcus A. Winters, Ph.D., “The Effect of Special Education Vouchers on Public School Achievement: Evidence from Florida’s McKay Scholarship Program,” Manhattan Institute for Policy Research, No. 52 April 2008, http://www.manhattan-institute.org/html/cr_52.htm.

³¹ See, for example, “AFT and NCATE Respond,” *Education Next*, Spring 2003/Vol.3, No. 2., <http://educationnext.org/aftandncaterespond/>.

³² Michael J. Petrilli, “Individual District Schools Don’t Serve All Students, Either,” *Education Next*, May 19, 2014, <http://educationnext.org/individual-district-schools-dont-serve-students-either/>.

³³ Center for Research on Educational Outcomes, “National Charter School Study, 2013,” p. 16, <http://credo.stanford.edu/documents/NCSS%202013%20Final%20Draft.pdf>.

Students from failing schools are also eligible for the private school choice opportunities in Alabama, Louisiana, and Ohio. Furthermore, Patrick J. Wolf led the research team that evaluated the nation's only federally-funded voucher program, operating in Washington, D.C. In 2009 he wrote in *Education Next*, "The OSP [Washington, D.C.'s voucher program] serves a highly disadvantaged group of D.C. students.... Overall, participating students were performing well below national norms in reading and math when they applied to the program."³⁴

Wolf's team also studied the nation's oldest voucher program, located in Milwaukee, Wisconsin. In their final report, the School Choice Demonstration Project reported, "Visits to 13 MPCP schools [schools enrolling voucher students] revealed that many Choice students come to the schools behind by 1-2 years academically; the MPCP schools use various strategies to try to 'catch them up' and prepare them for college and succeed with some but not all of them."³⁵

This evidence—evidence collected directly from the research reports and the eligibility criteria for existing choice programs—demonstrates that private school choice options such as vouchers do not collect the highest-achieving students from traditional schools in order to inflate student performance results.

Yet if school choice has such positive effects on student learning, why are 17-year-olds still scoring at the same level on national comparisons as they did in the 1970s?³⁶ Why does the U.S. still rank well below most Asian nations and many European countries on international comparisons?

At least part of explanation for stalled achievement is that only 300,000 children use private school choice programs across the country, while there are some 50 million students in public

schools.³⁷ Most school choice programs have strict eligibility limits, preventing students from middle- and upper-income families from participating. Arizona's education savings accounts are available to special needs children, children in failing schools, adopted children, children from military families, and some incoming kindergarten and preschool students. Florida's McKay vouchers are only available to special needs children, similar to the state's education savings account program (called "Personal Learning Scholarship Accounts"). Ohio has a voucher program exclusively for autistic children. The nation's oldest voucher program, in Milwaukee, is available only to low-income students.

Clearly all of these students are in need of additional help and have not been served well by the traditional system. However, school choice programs help fewer students when laws limit student eligibility. Policymakers should create school choice programs that are inclusive and give every child the chance at a great education because school choice aids participating students and students that remain in traditional public schools.

Policymakers should create school choice programs that are inclusive and give every child the chance at a great education because school choice aids participating students and students that remain in traditional public schools.

School Choice and Parents

With their newfound ability to search and pay for learning experiences, parents have more flexibility to meet their children's needs. And parents have

³⁴ Patrick J. Wolf, "Lost Opportunities," *Education Next*, Fall 2009/Vol. 9, No. 4, <http://educationnext.org/lost-opportunities/>.

³⁵ Patrick J. Wolf, "The Comprehensive Longitudinal Evaluation of the Milwaukee Parental Choice Program: Summary of Final Reports," SCDP Milwaukee Evaluation Report #36, February 2012, <http://www.uaedreform.org/downloads/2012/02/report-36-the-comprehensive-longitudinal-evaluation-of-the-milwaukee-parental-choice-program.pdf>.

³⁶ See The Nation's Report Card, Long Term Trend Assessment, available at http://www.nationsreportcard.gov/ltr_2012/.

³⁷ National Center for Education Statistics, 2013 Digest of Education Statistics, Table 203.10, "Enrollment in public elementary and secondary schools, by level and grade: Selected years, fall 1980 through fall 2013," http://nces.ed.gov/ipeds/data/digest/digest2013/tables/dt13_203.10.asp. See also, Katie Ash, "Group Sets Sights on Doubling the Number of Voucher Students in Private Schools," *Education Week*, December 17, 2013, http://blogs.edweek.org/edweek/charterschoice/2013/12/bolstered_by_investment_school_choice_org_to_double_its_population_in_five_years.html.

never had more schools and services to choose from. As Quinn Cummings, author of *The Year of Learning Dangerously: Adventures in Homeschooling*, says,

Imagine that your high school junior spends half of every day at the brick-and-mortar school up the street. Two afternoons a week, he logs into an art history seminar being taught by a grad student in Paris. He takes computer animation classes at the local college, sings in the church choir, and dives at the community pool.

He studies Web design on YouTube. He and three classmates see a tutor at the public library who preps them for AP Chemistry. He practices Spanish on Skype and takes cooking lessons at a nearby restaurant every Saturday morning.³⁸

Education savings accounts make potential experiences like these a reality. Today, education is not simply defined by where it is delivered but by how many different ways it is delivered.

From online resources such as the Khan Academy videos on YouTube, which cover thousands of subjects, to full-time virtual schools such as Connections Academy, those sources make it easier for students to access education anywhere through the Internet.³⁹ Parents can become more engaged than ever in their children's education either through the choice of a school (critical for families of children who have special needs, as indicated previously) or, as Cummings explains, through a set of alternatives.

School Choice and Taxpayers

Education savings accounts offer transparency in education spending and can be a cost savings for taxpayers.

With the accounts, the state provides funds directly to families and audits every purchase, instead of funding schools, where revenues and expenses are difficult to track. Savings account families then report expenses to the state (Arizona's

With the accounts, the state provides funds directly to families and audits every purchase, instead of funding schools, where revenues and expenses are difficult to track.

audit procedures are described below). Every penny is accounted for. With savings accounts, the state and taxpayers know exactly where and how money is spent.

How do taxpayers save on costs? In Arizona, the state deposits 90 percent of student funds from the funding formula into an account that is available for individual students. The state's department of education reserves some of the remaining 10 percent of student funds to administer the program and saves the rest. Thus, each student using a savings account actually saves money for the state. Education savings accounts will have drastic results for states with complicated funding formulas. In Arizona, taxpayers spend some \$125 million on empty seats in traditional schools because of outdated student information software that is designed to fund the system, not students.⁴⁰ The money spent on empty seats pays the wrong institution for a child's education. Savings accounts eliminate inefficient practices like these.

Arizona's Experience with Education Savings Account Legislation

When Gov. Brewer signed the savings accounts into law, Arizona's 125,000 special needs children were made eligible to apply.⁴¹ Children were required to have an Individualized Education Program, Multidisciplinary Education Team report, or 504 plan in order to participate. These documents define a child's special needs and outline the interventions needed to address their needs. In addition, children must have attended a public school in the prior school year.

In 2012, Arizona lawmakers changed the funding

³⁸ Quinn Cummings, "My Education in Home Schooling," *The Wall Street Journal*, July 27, 2012, http://online.wsj.com/article_email/SB10000872396390443343704577549472535089552-1MyQjAxMTAyMDIwOTAyODk3Wj.html?mod=wsj_valetleft_email.

³⁹ See Khan Academy, <http://www.khanacademy.org/>.

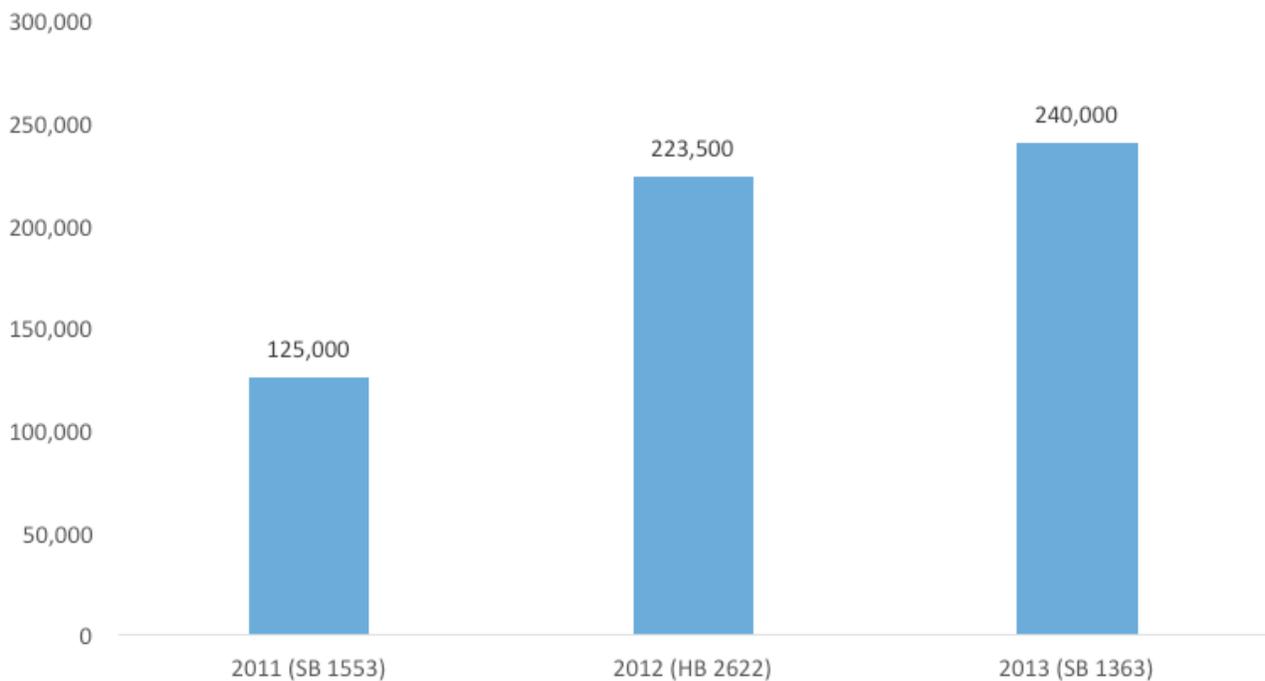
⁴⁰ Jonathan Butcher, "Ghost Busters: How to Save \$125 Million a Year in Arizona's Education Budget" (Goldwater Institute Policy Report No. 246, May 21, 2012), <http://goldwaterinstitute.org/sites/default/files/Policy%20Report%20246%20Ghost%20Busters.pdf>.

⁴¹ Fiftieth Arizona Legislature, First Regular Session, SB 1553 http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=SB1553&Session_ID=102 and Arizona Department of Education, "October 1, 2010 Count by Disability," <http://www.azed.gov/wp-content/uploads/PDF/100110CountbyDisability.pdf>.

source from this designated account to the state general fund.⁴² This adjustment did not change the amount that students receive, but the adjustment did make it possible to expand the program to include children from public schools that earned a “D” or “F” on the state report card system, children adopted from Arizona’s foster care system, or children of parents who are active duty members of

the U.S. military. These students’ accounts are now funded through the school funding formula used for all public school students. This expansion increased the number of eligible students to over 200,000, or more than 1 in 5 Arizona public school children.

Figure 1
Education Savings Account Expansion⁴³



⁴² Fiftieth Arizona Legislature, Second Regular Session, HB 2622, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=2622&Session_Id=107&image.x=-919&image.y=-34.

⁴³ Jonathan Butcher, “Education Savings Accounts: Questions and Answers,” Goldwater Institute, March 12, 2012, <http://goldwaterinstitute.org/article/education-savings-accounts-questions-and-answers>; Arizona Department of Education, “Special Education,” <http://www.azed.gov/special-education/funding/data-management/2012-2013/>; Fiftieth Arizona Legislature, First Regular Session, SB 1553, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=1553&Session_Id=102&image.x=-919&image.y=-34; Fiftieth Arizona Legislature, Second Regular Session, HB 2622, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=2622&Session_Id=107&image.x=-919&image.y=-34; Fifty-First Arizona Legislature, First Regular Session, SB 1363, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=1363&Session_Id=110&image.x=-919&image.y=-34.

As the program grew both in the numbers of children who were eligible and participating, the Goldwater Institute designed solutions to protect families and taxpayers from fraudulent activity.

As the program grew both in the numbers of children who were eligible and participating, the Goldwater Institute designed solutions to protect families and taxpayers from fraudulent activity. Arizona lawmakers passed HB2458 in 2013, which gave the Arizona Department of Education additional authority to protect the accounts' integrity.⁴⁴ The bill directs the department to conduct regular audits and gives the agency the ability to create a fraud-reporting system online and over the phone. In addition, the bill allows the department to employ surety bonds with account holders. With a surety bond, parents buy a policy using account funds (typically around \$25), and the department can use the policy fees to pay for any investigations into fraudulent activity or to recoup lost account funds if parents make ineligible purchases.⁴⁵

In 2013, lawmakers also increased the base funding amount for the accounts. SB1363 increased the base awards from approximately \$3,800 to approximately \$4,700.⁴⁶ For students with special needs, this amount will still be multiplied by the weight assigned to their diagnosis. In addition, SB1363 extended student eligibility to include incoming kindergarten students who meet the existing eligibility requirements (special-needs

children, children attending to a “D” or “F”-rated public school, adopted children, and children in military families).

Education Savings Accounts are Constitutional

In what should come as no surprise to supporters of quality choices in education, the Arizona Education Association, a teachers' union, and the Arizona School Boards Association (ASBA) filed suit shortly after Governor Brewer signed the accounts into law in 2011.⁴⁷ In 2009, the union, school boards association, and the American Civil Liberties Union (ACLU) sued and took school vouchers away from Arizona children with special needs and children in the foster care system with a victory in *Cain v. Horne*.⁴⁸ Teachers' unions have also sued K-12 scholarship programs in states such as Florida, Ohio, and Wisconsin.⁴⁹ Unions and other associations such as the ACLU are established opponents to student access to educational choices.

Unions and other associations such as the ACLU are established opponents to student access to educational choices.

In the lawsuit against education savings accounts, *Niehaus v. Huppenthal*, the teachers' union and school boards association contended that the accounts violated state constitutional provisions prohibiting public money from being used for private or religious purposes. This reasoning is similar to opponents' position in *Cain v. Horne*.

As described above, education savings accounts are distinctly different from vouchers because parents can use the accounts for various educational

⁴⁴ Fifty-first Arizona Legislature, First Regular Session, HB 2458, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=2458&Session_Id=110&image.x=-919&image.y=-34.

⁴⁵ For more information, see Jonathan Butcher, “Education Savings Accounts: A Path to Give All Children an Effective Education and Prepare Them for Life,” Goldwater Institute Policy Report No. 253, October 30, 2012, http://goldwaterinstitute.org/sites/default/files/PR253ESAsPathToAllChildren_o.pdf.

⁴⁶ Fifty-first Arizona Legislature, First Regular Session, SB 1363, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=1363&Session_Id=110&image.x=-919&image.y=-34.

⁴⁷ See *Niehaus v. Huppenthal*, <http://apps.supremecourt.az.gov/aacc/1ca/1caattyindex.htm>.

⁴⁸ The full *Cain v. Horne* ruling is available online at <http://www.azcourts.gov/Portals/23/pdf2009/CainOpinionCV080189PR.pdf>.

⁴⁹ Jonathan Butcher, “School Choice Marches Forward,” *Education Next*, Winter 2013, vol. 13, no. 1, <http://educationnext.org/school-choice-marches-forward-2/>.

Table 6

Arizona Empowerment Scholarship Account Legislative History⁵⁰

<p>SB1553: Education, Arizona Empowerment Accounts (Passage: 2011)</p>	<p>Summary: This bill authorized education savings accounts in Arizona. Special needs students were eligible to apply in the 2011-2012 school year. The accounts were funded using a specific source of funds at the Arizona Department of Education for students with special needs.</p>
<p>HB2622: School Rankings; Display; Time Period (Passage: 2012)</p>	<p>Summary: This bill expanded student eligibility to include children attending schools that earned a “D” or “F” on the state report card, children in active-duty military families, and children adopted from the state foster care system. The bill also funded all accounts using the general fund, the primary source of Arizona state education funding.</p>
<p>HB2458 Empowerment Scholarship Accounts; Fraud Prevention (Passage: 2013)</p>	<p>Summary: This bill required the Arizona Department of Education to conduct annual audits in addition to the quarterly reviews of the accounts. The bill also gave the department the authority to outsource auditing responsibilities and to create fraud-reporting resources such as a 1-800 phone number and a website dedicated to fraud reporting. The bill also gave the department the authority to create a surety bond arrangement with families to help recover any misspent funds.</p>
<p>SB1363: Empowerment Scholarship Accounts; Expansion; Funding (Passage: 2013)</p>	<p>Summary: This bill expanded student eligibility to include incoming kindergarten students that meet the existing eligibility requirements for the savings accounts. The bill also adjusted the funding formula so that the basic amount of account awards was increased to approximately \$4,600-\$5,400.</p>
<p>HB2150: Empowerment scholarship accounts; military families (Passage: 2014)</p>	<p>Summary: This bill removes the requirement that children of active duty members of the military attend a public school for 100 days in the prior school year before applying for an education savings account. In addition, the bill adds eligibility for children from families where a parent was in the military and was killed in the line of duty.</p>
<p>SB1237: Empowerment scholarship accounts; revisions (Passage: 2014)</p>	<p>Summary: This bill provides some technical fixes for the accounts. New provisions include the Arizona Department of Education’s ability to outsource student IEP drafting to private providers and provides more flexibility for parents over when the department of education deposits funds in a student’s savings account.</p>
<p>HB2139: Increased eligibility; empowerment scholarship accounts (Passage: 2014)</p>	<p>Summary: This bill extends education savings account eligibility to include siblings of existing education savings account students. The bill also makes preschool children with special needs eligible for the accounts.</p>

⁵⁰ Fiftieth Arizona Legislature, First Regular Session, SB 1553, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=1553&Session_Id=102&image.x=-919&image.y=-34; Fiftieth Arizona Legislature, Second Regular Session, HB 2622, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=2622&Session_Id=107&image.x=0&image.y=0; Fifty-first Arizona Legislature, First Regular Session, HB 2458, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=2458&Session_Id=110&image.x=0&image.y=0; Fifty-first Arizona Legislature, First Regular Session, SB 1363, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=1363&Session_Id=110&image.x=0&image.y=0; Fifty-first Arizona Legislature, Second Regular Session, HB 2150, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=2150&Session_Id=112&image.x=0&image.y=0; Fifty-first Arizona Legislature, Second Regular Session, SB 1237, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=1237&Session_Id=112&image.x=0&image.y=0; Fifty-first Arizona Legislature, Second Regular Session, HB 2139, http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=2139&Session_Id=112&image.x=0&image.y=0.

products and services. Parents are not compelled to use their funds for any specific service. The Goldwater Institute successfully defended the accounts alongside Arizona school superintendent John Huppenthal and the Institute for Justice.

“The exercise of parental choice among education options makes the program constitutional,”

In January 2012, Maricopa County Superior Court Judge Maria Del Mar Verdin ruled that education savings accounts did not violate the state constitution. “The exercise of parental choice among education options makes the program constitutional,” Judge Del Mar Verdin wrote in her opinion.⁵¹

The teachers’ union and ASBA appealed, and the Arizona Court of Appeals ruled in favor of the accounts on October 1, 2013.⁵² In a unanimous decision, Judge Jon W. Thompson wrote, “The specified object of the ESA is the beneficiary families, not private or sectarian schools. Parents can use the funds deposited in the empowerment account to customize an education that meets their children’s unique educational needs.”⁵³

In March 2014, the Arizona Supreme Court declined to review the case, which means the appeals’ court ruling stands and the accounts are constitutional in Arizona.⁵⁴

Education Savings Account Research

In 2013, three studies provided the first research

on Arizona’s accounts. In May, the Goldwater Institute conducted the first focus group study of families using education savings accounts.⁵⁵ Eighteen parents participated. The purpose of the session was to learn more about how parents were using the accounts, what practices they found to be the most beneficial for their children and what changes they thought would make the accounts more effective at helping their children. Over the past 10 years, The School Choice Demonstration Project, based at the University of Arkansas, conducted similar focus groups of parents using school vouchers for their children in Milwaukee, Wisconsin, and Washington, D.C.⁵⁶ These focus groups found high levels of parent satisfaction and parent engagement with their children’s schooling.

Likewise, the Goldwater Institute’s focus group found that parents were satisfied with their choice to use an education savings account for their children. Ninety-four percent of participants were “very satisfied” with the accounts, and six percent were “somewhat satisfied.”

One focus group participant said, “I am, by and large, extremely happy with the fact that we have the account. I’m amazed that this is even possible, and every day I wake up and just pinch myself that this is a possibility.”

Parents reported that the Arizona Department of Education was the most helpful source of information about the accounts, but they also said that they found traditional public school officials and teachers were not informed about the accounts. Parents report that public school officials had little

⁵¹ Jonathan Butcher, “Education Savings Accounts: Questions and Answers,” Goldwater Institute, March 12, 2012, <http://goldwaterinstitute.org/article/education-savings-accounts-questions-and-answers>.

⁵² See Superior Court of Arizona, Maricopa County, Niehaus v. Huppenthal, January 25, 2012, available at <http://goldwaterinstitute.org/sites/default/files/m5077507.pdf> and Arizona Court of Appeals, Niehaus v. Huppenthal, October 1, 2013, <http://azcourts.gov/Portals/0/OpinionFiles/Div1/2013/1%20CA-CV%2012-0242.pdf>.

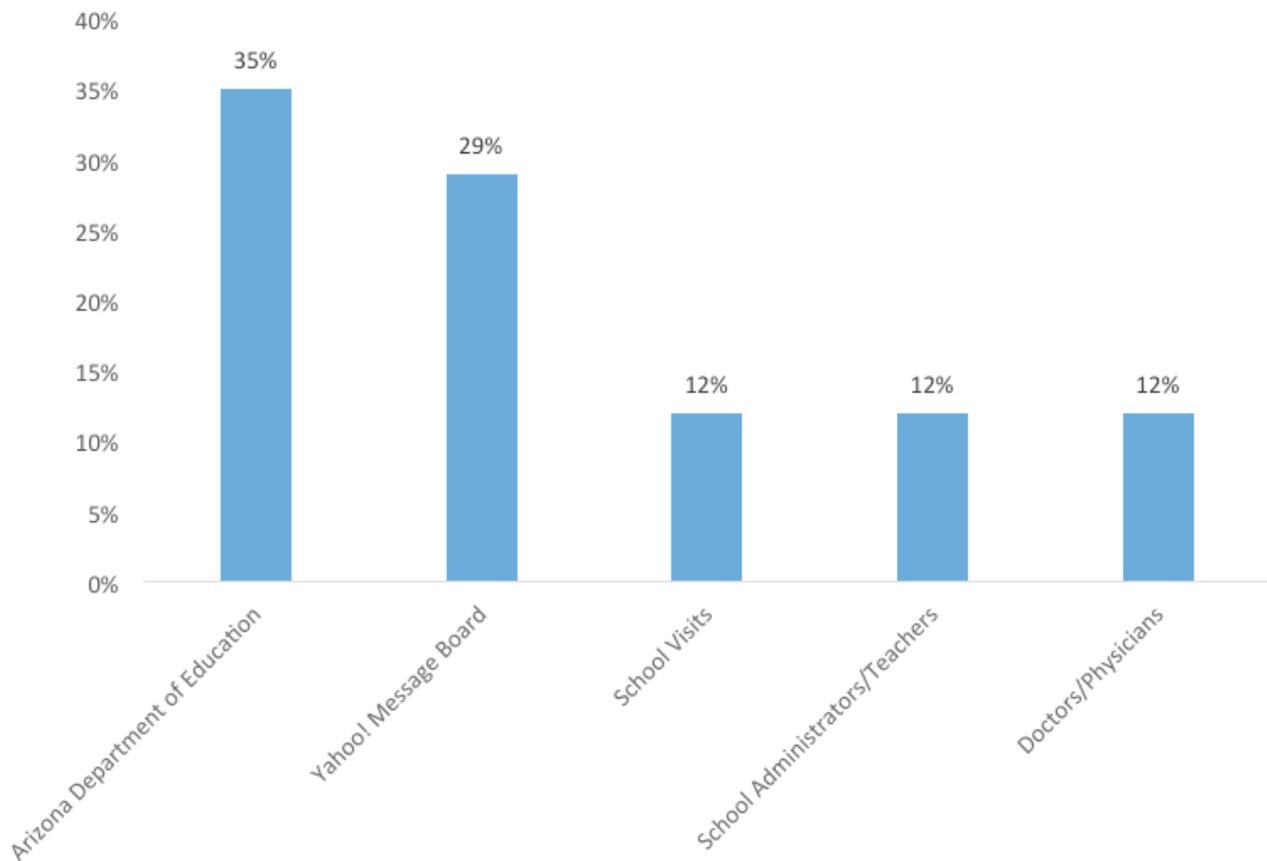
⁵³ Arizona Court of Appeals, Niehaus v. Huppenthal.

⁵⁴ Arizona Supreme Court Minutes, March 21, 2014, http://www.azcourts.gov/Portals/21/MinutesCurrent/PR_Min_032114.pdf.

⁵⁵ Jonathan Butcher, “Dollars, Flexibility, and an Effective Education: Parent Voices on Arizona’s Education Savings Accounts,” Goldwater Institute Policy Report No. 263, October 3, 2013, http://goldwaterinstitute.org/sites/default/files/GWI_Policy%20Report_ESA_final.pdf.

⁵⁶ See University of Arkansas Department of Education Reform School Choice Demonstration Project, <http://www.uaedreform.org/school-choice-demonstration-project/>.

Figure 2
 What Were the Most Helpful Sources of Information When Choosing How to Use Your Education Savings Account?⁵⁷



or no information on the accounts:

“The school officials knew nothing about the scholarship at all. They were asking me questions about the scholarship...and put me in a corner about the scholarship. They were not familiar with it at all.”

“I was recently having my son’s [Multidisciplinary Evaluation Team report], and I was talking to the psychiatrist, and she had no idea what the scholarship was. She was asking questions about it. She thought it was

really great. She thought it was great that he was able to use this scholarship. But she had never heard of it before.”⁵⁸

Another study using data on parent purchases found that parents are taking advantage of the accounts’ flexibility. Writing for The Friedman Foundation for Educational Choice, Lindsey M. Burke found that 34.5 percent of education savings account funds were used for multiple education services.⁵⁹ Approximately 65.5 percent of funds were used only for a single educational option.

⁵⁷ Jonathan Butcher, “Dollars, Flexibility, and an Effective Education: Parent Voices on Arizona’s Education Savings Accounts,” Goldwater Institute Policy Report No. 263, October 3, 2013, p. 10, http://goldwaterinstitute.org/sites/default/files/GWI_Policy%20Report_ESA_final.pdf. No respondents selected the other available options of a school fair, family, friends, church, or doctors/physicians.

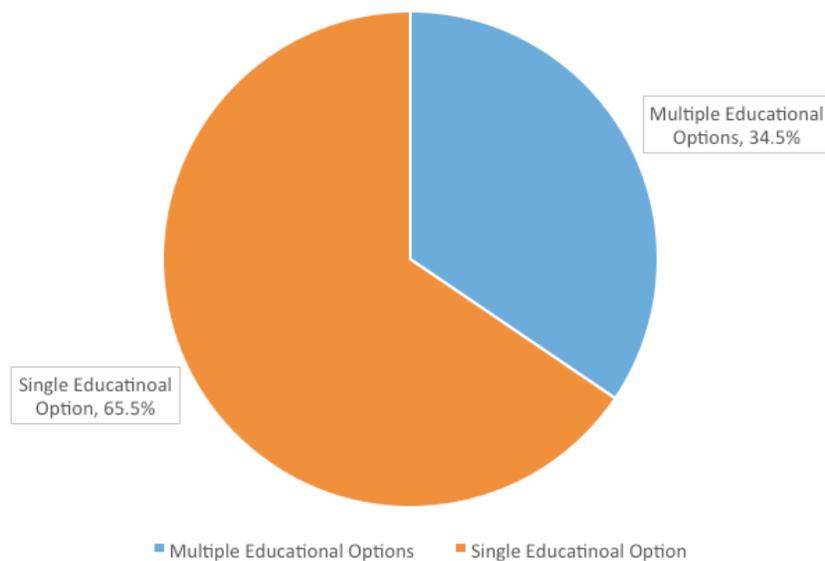
⁵⁸ Multidisciplinary Team Reports are used to outline a child’s special need and the interventions that teachers and school personnel will use to help the child. See Jonathan Butcher, “Dollars, Flexibility, and an Effective Education: Parent Voices on Arizona’s Education Savings Accounts,” Goldwater Institute Policy Report No. 263, October 1, 2013.

⁵⁹ Lindsey M. Burke, “The Education Debit Card: What Arizona Parents Purchase with Education Savings Accounts,” The Friedman Foundation for Educational Choice, August 28, 2013, <http://www.edchoice.org/CMSModules/EdChoice/FileLibrary/1015/THE-EDUCATION-DEBIT-CARD-What-Arizona-Parents-Purchase-with-Education-Savings-Accounts.pdf>.

Burke found that more than \$670,000 in account funds were unspent at the end of FY2012, and \$338,000 were unspent in the first quarter of 2013. Burke writes, “This suggests families are saving and rolling over a significant portion of the ESA funds, in anticipation of either near-term or long-term future education-related expenses.”⁶⁰ Note that education savings account students only use 90 percent of the state’s portion of funds set aside for them in the public school funding formula, resulting in significant taxpayer savings. A Goldwater Institute analysis estimates that for every 5,000 children using savings accounts, the state saves \$12.3 million.⁶¹

In a survey of savings account families conducted in 2013, Jonathan Butcher and Jason Bedrick found that 65 percent of parents reported using their child’s account for private school tuition. Twenty-seven percent of families did not spend any of their account funds on private school tuition.⁶³ Similar to the two other studies conducted in 2013, the authors found that parents used the accounts for multiple purposes (Figure 4 on page 18). According to the survey, 65 percent of parents used the accounts for private school tuition, 41 percent accessed education therapy, and more than one-third of respondents used the accounts for a tutor for their child.

Figure 3
Percentage of Empowerment Scholarship Account Funds Used for Single vs. Multiple Educational Options, September 2011 to March 2013⁶²



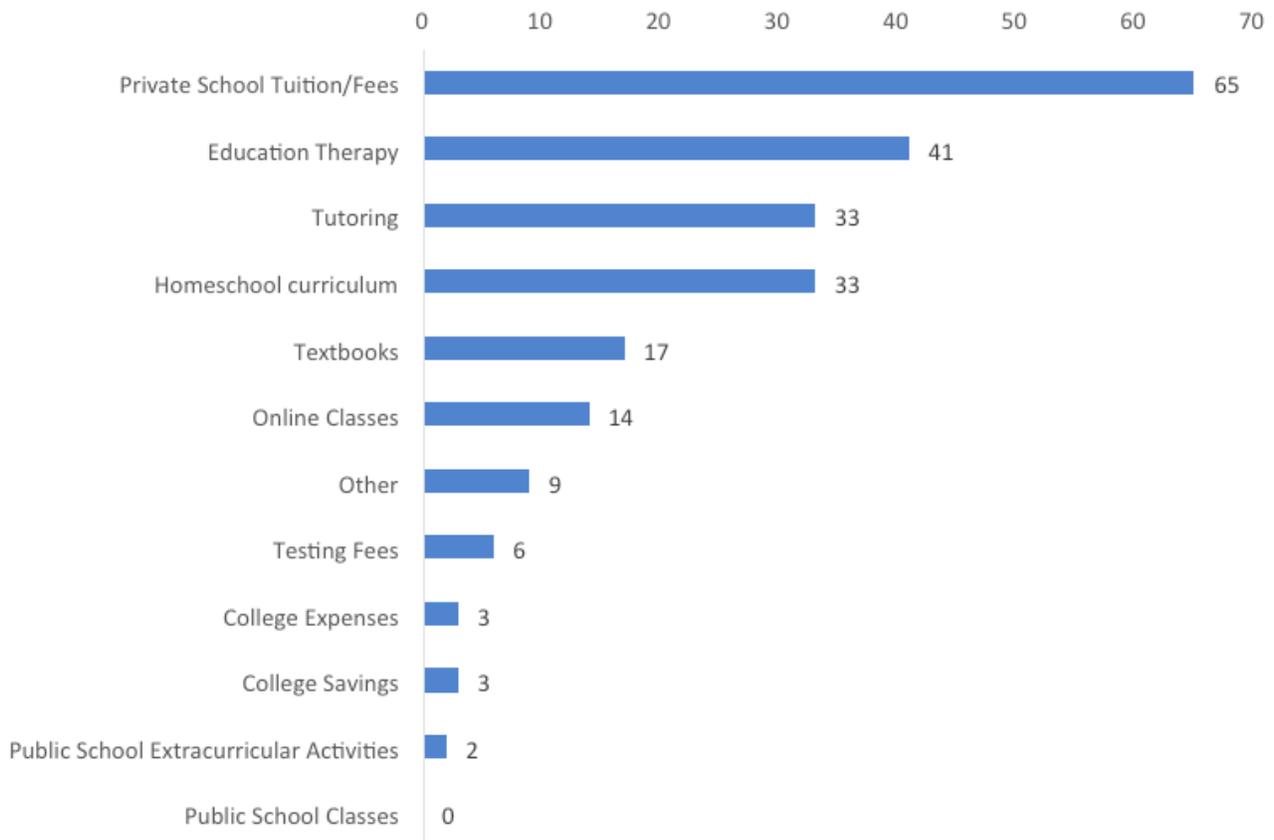
⁶⁰ Burke, “The Education Debit Card,” p. 13.

⁶¹ Butcher, “Dollars, Flexibility, and an Effective Education,” p. 5.

⁶² Lindsey M. Burke, “The Education Debit Card: What Arizona Parents Purchase with Education Savings Accounts,” The Friedman Foundation for Educational Choice, August 28, 2013, <http://www.edchoice.org/CMSModules/EdChoice/FileLibrary/1015/THE-EDUCATION-DEBIT-CARD-What-Arizona-Parents-Purchase-with-Education-Savings-Accounts.pdf>.

⁶³ Jonathan Butcher and Jason Bedrick, “Schooling Satisfaction: Arizona Parents’ Opinions on Using Education Savings Accounts,” The Friedman Foundation for Educational Choice, October 10, 2013, p. 11, <http://www.edchoice.org/CMSModules/EdChoice/FileLibrary/1019/SCHOOLING-SATISFACTION-ArizonaParents-Opinions-on-Using-Education-Savings-Accounts.pdf>.

Figure 4
Different Uses of Education Savings Accounts⁶⁴



All students should be eligible for a savings account, just as all children can attend public schools

The survey also found that some parents were spending their own funds on their child’s education in addition to education savings account monies: “Most parents reported using personal funds to pay for their children’s education in addition to education savings account funds. Though 24 percent reported not spending any additional funds, 29

percent of respondents spent \$101–\$500 in personal funds; 15 percent spent \$501–\$1,000; 12 percent spent \$1,001–\$2,500; 5 percent spent \$2,501–\$5,000; and 11 percent of respondents spent more than \$5,000.”⁶⁵

The Arizona Model and Oklahoma

Arizona’s experience can inform Oklahoma lawmakers they consider enacting education savings accounts. State leaders considering the program will need to address four critical areas:

- I. **Eligibility.** All students should be eligible for a savings account, just as all children can attend

⁶⁴Jonathan Butcher and Jason Bedrick, “Schooling Satisfaction: Arizona Parents’ Opinions on Using Education Savings Accounts,” The Friedman Foundation for Educational Choice, October 10, 2013, p. 11, <http://www.edchoice.org/CMSModules/EdChoice/FileLibrary/1019/SCHOOLING-SATISFACTION-Arizona-Parents-Opinions-on-Using-Education-Savings-Accounts.pdf>.

⁶⁵Butcher and Bedrick, “Schooling Satisfaction,” p. 2.

public schools. Whereas savings accounts have the potential to provide specific experiences for children with special needs or in unique circumstances, it is this very feature that makes them so valuable for every student. More and more states are enacting private school choice programs with broad eligibility rules. In 2011, Indiana Governor Mitch Daniels signed into law an opportunity scholarship program that allows middle-income and low-income families across the state to participate. In its first year, the Choice Scholarships program enrolled 3,919 students, the largest number of students ever to participate in a scholarship program's inaugural year.⁶⁶

In 2012, Louisiana Governor Bobby Jindal expanded the state's opportunity scholarship program to include students attending schools rated "C" or below on the state report card. Approximately 380,000 students are eligible.⁶⁷

Some states may not be prepared to process so many new savings accounts in the program's first year, and Arizona policymakers found that establishing a new financial arrangement with a bank requires time and study. So, as Arizona lawmakers expanded the program, the additional students, such as children in failing schools, were phased in over a short time. This phase-in allowed the state's administrative capability to keep pace with family participation.

2. **Funding.** State funding policies must be updated to accommodate real-time student transfers and funding models where education dollars follow the child. In Arizona, schools are paid one year in arrears on the basis of enrollment.⁶⁸ Traditional schools submit enrollment reports to the state department of education at the end of the year, and the department sends checks to schools in the next school year on the basis of those counts from the previous year. However, traditional schools can apply for current-year funding increases if the school experiences an enrollment increase.

However, no adjustment is made if enrollment decreases. This reporting delay costs taxpayers millions in payments to schools for students who have transferred elsewhere.

When the original education savings account law was passed, lawmakers funded the accounts outside of the traditional funding system. Student accounts were financed through a separate set of funds that had been set aside for children with special needs (the 2012 expansion changed the funding protocols so that accounts now receive money from the traditional school funding stream). Still, the system holds traditional schools harmless for one year after children with special needs leave or are enrolled in the savings account program. Instead of insulating public schools from the reality of parental options or creating unique funding mechanisms, lawmakers should adopt protocols whereby school funds follow a child to his school, online class, tutor, or any other educational service of choice in real time. Arizona's charter school funding process is designed to reflect accurate enrollments in the schools, and this procedure is a model for the savings account program. Under Arizona's charter law, schools report enrollment periodically through the year, and as the state sends monthly payments to schools, the payments are updated to reflect the current enrollment numbers.⁶⁹

Likewise, traditional schools should update their enrollment reports throughout the year and should have their payments adjusted accordingly. Students who opt for a savings account should be able to take their funds with them as they find educational opportunities outside the traditional public school system.

3. **Allowable expenses.** State leaders must carefully define the list of expenses for which parents can use savings account funds. As mentioned previously, Arizona parents can use such funds for private school tuition, individual public school classes, textbooks, educational therapy

⁶⁶ School Choice Indiana, "Indiana Claims Title of Nation's Biggest First-Year Voucher Program Ever," news release, November 3, 2011, <http://www.indianaschoolchoice.com/2011/11/03/indiana-claims-title-of-nation-s-biggest-first-year-voucher-program-ever/>.

⁶⁷ Stephanie Banchemo, "School Vouchers Gain Ground," Wall Street Journal, April 11, 2012, <http://online.wsj.com/article/SB10001424052702303624004577338131609745296.html>.

⁶⁸ Jonathan Butcher, "Ghost Busters."

⁶⁹ Arizona Revised Statutes, 15-185, <http://www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/15/00185.htm&Title=15&DocType=ARS>.

services, online classes, standardized test fees, tutoring services, college savings plans, and college tuition. But there are at least four other expenses parents incur when providing an education for their child which should be allowable expenses for education savings account funds: transportation fees; school uniform expenses; educational summer camps; and classroom materials such as pens, paper, calculators, computers and tablet devices. The state department of education should make a list of all the types of approved expenses available to parents through the Internet and periodic mailings.

4. **Preventing fraud and abuse.** Every state and federal program that offers public assistance is subject to fraud and abuse. Education savings account programs should be designed with fraud protections that use the experience of other benefit systems, such as Medicare and food stamps. For example, the Arizona Department of Education limits the vendors at which parents can use debit cards, much like food stamp debit cards. Savings account cards should have this protection added, so that when families use the check cards at large retailers (again, such as Walmart), the cards cannot be used to purchase groceries at the same time that curriculum or textbooks are being purchased. State officials should also list vendors that have been “unlocked” on a state website or should distribute such a list to account families so that parents know which stores have already been unlocked. Maintaining an updated database such as this, along with accurate records on participating students, should be a central task for department officials who are overseeing the program.

State leaders should conduct quarterly and random audits of the accounts to reconcile the balances of families that turned in few or no receipts. With Arizona’s accounts, parents could be spending the money at approved stores on unapproved purchases and could be not submitting receipts. If the state audits the accounts only annually, state officials may not identify those purchases until conducting an annual

audit. Strengthening investigative units such as this led to success against Medicaid fraud in Texas, reports Manhattan Institute’s City Journal. Between 2003 and 2004, Texas recovered \$441 million from fraudulent transactions.⁷⁰ A state auditor could perform a similar function for education savings accounts and conduct regular reviews of expenditures.

Lawmakers should create a toll-free hotline where families or retailers can report fraud; those hotlines are a common practice in Medicare systems around the country. Arizona’s Health Care Cost Containment System offers a telephone hotline and a form that can be submitted online to report misuse of funds.⁷¹ This measure alone will not prevent every misuse of state funds, but such a hotline could be part of the larger plan to prevent fraud. State officials should also commission “compliance buyers,” or investigators who pose as individuals trying to commit fraud. The Special Supplemental Nutrition Program for Women, Infants, and Children uses investigators in this way.⁷² This process will help to identify weaknesses in the state’s oversight of its education savings accounts and of vendors that are operating illegally so Arizona can ensure that funds are being spent appropriately.

Additional Considerations

Policymakers must be prepared to give parents flexibility with the accounts—even beyond the classroom—while still holding parents accountable for how funds are spent.

- For funds that are unused by the time a child graduates from college, parents should be allowed to roll the money into a retirement savings plan or a health savings account for the (now) young adult.
- While students are enrolled in a savings account, policymakers should enact provisions that require parents to have students tested at regular intervals using an assessment of choice. Parents should be afforded the opportunity to choose the test and report the results to the state.

⁷⁰ Steven Malanga, “How to Stop Medicaid Fraud,” City Journal, Spring 2006, http://www.city-journal.org/html/16_2_medicaid_fraud.html.

⁷¹ Arizona Health Care Cost Containment System, “Fraud, Abuse, or Abuse of a Member,” <http://www.azahcccs.gov/fraud/default.aspx>.

⁷² U.S. General Accounting Office, “Food Assistance: Efforts to Control Fraud and Abuse in the WIC Program Can Be Strengthened,” August 1999, p. 8, <http://www.gao.gov/products/RCED-99-224>.

Conclusion

Lynn McMurray, the mother of education savings account students Alicia, Uriah, and Valerie, knows that her choices with her children's education savings accounts will help to define their futures. "They need to survive in the world," Lynn says. "They need to get jobs when they grow up and get back into the community." Holland Hines, another education savings account parent in Arizona, says, "We're talking about taking care of these children for years if we don't get them the proper education now." Today, over 1,300 Arizona families are taking advantage of the accounts with the same vision for the future.

Because education savings accounts give parents many different choices, lawmakers in Arizona and around the country should monitor the spending flexibility to make sure children have access to the tools and services they need.

Parents and children need to be able to pursue education wherever it is found. Education savings accounts allow them to do just that. The accounts are a model for what education in the 21st century should look like: flexible, innovative, and child-centered. Every Oklahoma child deserves this innovative, high-quality option to help them succeed.

